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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000853

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NEA/ARP

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TAGS: [ECON](#) [EFIN](#) [EPET](#) [EINV](#) [KU](#)
SUBJECT: CENTRAL BANK DEPUTY GOVERNOR ON MENA/FATF,
FINANCIAL SECTOR STABILITY, GCC CURRENCY UNION, AND SEC LAW
SUIT

REF: KUWAIT 312

Classified By: Economic Counselor Oliver John for reasons 1.4 b and d.

[1](#)1. (U) This is an Action Request. Please see paragraph 9.

[1](#)2. (C) Summary and Key Points:

On August 24, CDA and Econoffs met with Mohammed Al Hashel, Deputy Governor, Central Bank of Kuwait (CBK). Key topics discussed:

Economic status from CBK's perspective: robust oil prices balance the budget and improve future economic outlook; Stability of the banking sector: including limited use of the financial sector rescue package, stress tests for banks; Future of Gulf Country Common Currency and impact of UAE and Oman's pullout; Status of the ongoing SEC investigation against certain Kuwaiti financial institutions.

CDA also mentioned the upcoming Middle East and North Africa Financial Task Force (MENA/FATF) Mutual Evaluation scheduled for 2010, and asked if there was an update on the status of the amendment to the AML law. Al Hashel stated that while CBK is taking the issue seriously, he could not offer any new information on the status of the law at this time. End Summary and Key Points.

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Oil Prices Improve, Banks Avoid Worst of Crisis
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[1](#)3. (U) Overall, Al Hashel believed Kuwait's economy was pulling through the financial crisis and his outlook was generally positive. Al Hashel reported that oil prices are at "a good price, 70-73 USD per barrel" for Kuwait's budget, adding that the break even price is approximately 50 USD per barrel and if transfers to the pension fund are removed, the break even price is closer to 35 USD per barrel. CBK told CDA that a stable price level for oil at around this range is more desirable than an over-inflated rate, which would choke off growth and lead to a collapse in oil prices.

[1](#)4. (SBU) Al Hashel noted that Kuwait's banking sector had avoided the worst impacts of the global financial crisis, both due to generally conservative banking practices and banking supervision. Kuwaiti banks do have exposure to the volatile real estate market due to limited alternative local investment opportunities ("We have no industry, so local investors have only the stock market or real estate," he observed). He stated that compared to the region, Kuwait has invested much less into new construction than its neighbors, such as Dubai, and Kuwait still has an unmet occupancy demand for commercial and residential real estate. (Note: We are skeptical on this latter point, given dropping rates for commercial space. End note.)

Risk Mitigation Strategy

¶5. (SBU) As part of its conservative strategy, Al Hashel noted that Kuwait's Central Bank applied Bank for International Settlements (BIS) Basel II's revised capital adequacy standards to conventional banks in 2005, at an even higher capital adequacy ratio of 12% rather than 8%. It extended Basel II to Islamic banks in June 2009. So far, Kuwaiti banks have been able to maintain that ratio despite the increased general and specific non-performing loan provisions that the Central Bank has required. CBK has also implemented stress tests on its banks in early 2009, which reportedly "went well."

¶6. (SBU) CBK supervises institutions with a heavy focus on risk mitigation including "identification, measurement and solutions." Al Hashel reported that the Central Bank has hired a consultant to evaluate and develop new stress test tools. He noted that the U.S. stress tests for systemically important banks would not apply in Kuwait, which had its own series of economic challenges (most Kuwaitis are employed by the government sector, budgets and economic growth are highly oil dependent).

Rescue Package "Just in Case"

¶7. (SBU) Al Hashel briefly touched on the implementation of
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the financial sector rescue package, passed by Amiri degree in April, but which still needs parliamentary ratification (ref a). So far only around 132 million KD has been tapped, mostly to encourage new lending to the non-financial private sector, "this is nothing," Al Hashel admitted. Essentially, however, overall lending to the private sector has been flat this year. Al Hashel stressed that the law is merely a precaution, "just in case we need it" because the Central Bank already has tools in place to deal with an economic crisis even without the law. (Note: The Central Bank Governor was instrumental in pushing for this law, arguing that his "toolkit" needed to be expanded to cover more contingencies. End note.)

GCC Currency

¶8. (C) Al Hashel downplayed the withdrawal of the UAE from the proposed GCC monetary union, stressing that the remaining 4 countries (Oman having withdrawn previously) remained committed. He acknowledged that details still needed to be worked out, including naming the currency, whether to fix to a basket, a single currency or to float, and expressed doubt that the GCC would meet the 2010 deadline. Asked by CDA whether this would eliminate the Central Bank's ability to conduct monetary policy, Al Hashel responded enigmatically that any currency deal needed to respect the ability of Central Banks to take actions necessary to stabilize their own economies. On a positive note, he commented that the withdrawal of the UAE actually increased the economic convergence between the remaining members (who are more on cycle, economically, with each other). Ultimately, he noted, it was as much about politics as it was about economics and the political will was there.

Action Request

¶9. (C) CBK asked whether CDA or Econcouns had any information to report on the SEC case against Al-Raya

Investment Co., it's CEO Hazem Al-Braikan, United Gulf Bank (UGB) and KIPCO Asset Management Company (KAMCO). He explained that the Central Bank had formally approached KAMCO and Al-Raya for weekly updates on the case (which he was not able to share due to confidentiality reasons). He noted that in the past the SEC had approached the Central Bank with regard to investigations and asked if there was any information the SEC desired, or could share. As an aside, he said that the case's fall-out had already claimed one life (Al-Braikan) whether by suicide or foul play. He also remarked that he knew Al-Braikan personally; he had been a few years ahead of him in school.

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